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UNCLAS SECTION 01 OF 02 PANAMA 001619

SIPDIS

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FOR STATE WHA-CEN - TELLO
FOR STATE EEB/TPP/ABT - CLEMENTE
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FOR USTR - MILLER

E.O. 12958: N/A

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SUBJECT: PANAMA -TEXTILE AND APPAREL PRODUCTION INFORMATION

REF: STATE 114799

11. (U) Total industrial production in USD value:
\$1,066,600,000 (2006; in 1996 USD); \$277,400,000 (first
quarter 2007; in 1996 USD).

Total textile and apparel production in USD value: \$6,555,343
(2006); \$3,144,986 (first quarter 2007).

Textile/apparel share of host country imports and exports:
0.7% (2006); 1.0% (first quarter 2007).

Exports in textile and apparel to the U.S. in USD value:
\$1,587,386 (2006); \$858,472 (first quarter 2007).

Total manufacturing employment: 44,406 (2006); 45,378 (first
quarter 2007).

Total textiles and total apparel employment: 1,866 (2006);
1,933 (first quarter 2007);

All figures are from the GOP's Comptroller General's Office.
Textile production and employment (manufacturing and
textile/apparel) figures based on an estimate of firms having
5 or more employees derived from a 2002 census; industry
contact told Post he believes there are less than 1,000
people employed in the textile industry)

12. (U) Q. Are host country producers receiving lower prices
due to heightened international competition?

1A. While there are no official GOP statistics on this
question, textile industry contacts have told EmbOff that
Panamanian producers are not receiving lower prices due to
heightened international competition.

13. (U) Q. Have manufacturers received more, less, or the
same number of orders as in years past?

1A. Industry contacts have told EmbOff that they are receiving
approximately the same number of orders as in past years.
The industry contacts said that the number of orders has not
significantly varied over the past few years due to specific
quality and "designer type" clothing (such as the traditional
shirt, the guayabera) manufactured in Panama. However,
according to data from 1997 through 2006 from the GOP's
Controller General's Office, Panamanian textile exports
reached a high of \$3,316,732 during 2004. Such exports have
since fallen to \$2,358,520 during 2005 and \$1,618,409 during

2006; the drop is almost exclusively related to declines in the dollar value of T-shirts and undershirt exports.

¶4. (U) Q. Have foreign investors, particularly, Asian investors, closed factories or otherwise pulled out of local production?

¶A. No. According to industry contacts, there are no Asian investors of any noticeable size in the Panamanian textile industry.

¶5. (U) Q. Have U.S. and EU restrictions on certain exports of textiles and apparel from China, effective through 2007/2008, affected export prospects for host country manufacturers?

¶A. According to industry contacts, such restrictions have adversely affected those Panamanian manufacturers who import very inexpensive apparel from Asia, then add value and re-export to other countries. There are no reliable GOP statistics or industry contact estimates quantifying this adverse effect.

¶6. (U) Q. Has the host government implemented, or is it considering implementing, safeguards or other measures to reduce growth of imports of Chinese textile and apparel products into the host country?

¶A. According to the GOP's Ministry of Industry and Commerce (MICI) and industry contacts, the GOP has not implemented, nor is it planning on implementing, any such measures.

¶7. (U) Does the host have policies or programs in place to deal with any dislocated workers in the sector resulting from increased competition?

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¶A. According to the MICI and industry contacts, there are no policies or programs specifically designed to address the needs of such dislocated workers.

¶8. (U) Has increased global competition affected local labor conditions by causing employers to reduce wages, seek flexibility from government required minimum wages, or adversely affected union organizing?

¶A. According to industry contacts, textile manufacturers have been forced to lower wages as a result of Chinese competition. Such contacts said that union organization has not been affected and the wage demands of such unions have resulted in closures of various textile companies.

¶9. (U) Has the host government or private industry taken action to increase the country's competitiveness, such as improving infrastructure, reducing bureaucratic requirements, developing the textiles (fabric production) industry, moving to higher value-added goods, or identifying niche markets? Does post think that the host government or private industry's strategy will be successful?

¶A. Neither the GOP nor private industry has undertaken any action to specifically improve the competitiveness of Panama's textile industry. The GOP has engaged in various programs to improve the country's overall competitiveness, such as allocating \$88 million to worker training programs, establishing a one-stop online process to register new businesses replacing the prior multi-step, multi-agency registration process (Panama Emprende), and establishing on-line government procurement processes to facilitate access to government contracts (Panama Compra). Industry contacts have complained to Post that Panama's rigid labor code eliminates a free market in labor, making it impossible to hire and terminate workers to accommodate the seasonal demand shifts for apparel. As a result, producers are disincentivized from expanding production or hiring

additional workers.

¶10. (U) If your host government is a partner in a free trade agreement or a beneficiary of a preference program such as AGOA, CBTPA, CAFTA or ATPDEA, what impact does the program have on local sector industry competitiveness?

¶A. Panama is a beneficiary under CBTPA, which benefits are scheduled to expire in September 2008. According to one industry source, the benefits CBTPA allow to the textile industry to flourish during the 1980s. However, as the U.S. reduced or eliminated quotas and tariffs on textiles entering the U.S. from other countries, the value of the CBTPA benefits declined, as did exports to the U.S. According to this source, NAFTA dealt a severe blow to the Panamanian textile exports to the U.S. because Mexico offered lower wage, energy and transportation costs, and Mexican exports paid no import tax unlike Panamanian textile exports. Panama and the U.S. have signed a Trade Promotion Agreement (TPA) which is awaiting U.S. Congressional approval. Panama's National Assembly ratified the TPA in July 2007. Panama is not a party to CAFTA-DR.

¶11. (U) Q. Overall, if not already addressed, does post think that host country can be competitive in textiles and apparel exports given heightened global competition?

¶A. No. Panama's economy 75% service-based. The country has only 15 textile manufacturers, principally producing work and school uniforms, and certain designer type clothing, such as the guayabera. Due to the small domestic market (only 3.2 million residents), neither the GOP nor the private sector appear eager, willing or incentivized to make large scale investment to upgrade or expand textile production facilities.
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